THE TV BUSINESS IS THE GROUP'S MAJOR SOURCE OF REVENUE, ACCOUNTING FOR 87% OF THE GROUP'S TOTAL TURNOVER.

HK$29.9 BILLION

TOTAL TV SALES REVENUE

BUSINESS REVIEW

Year 2005 is a year of integration, re-engineering and consolidation for the Company. A range of enhancement programmes were carried out during the year. In addition to the ongoing re-engineering efforts, in July 2005, the Group reached a definitive agreement with Thomson to finalize the transfer of sales and marketing activities in Europe and North America from Thomson to TTE. Consequently, TTE gained full control of its sales and marketing in these two major markets. This move entails a better business model with closer ties between functions of sales and marketing, supply chain, production and after-sale services, substantially enhancing efficiency and reducing the overall operating costs of the Group.

After more than one year's operation, TTE has achieved considerable progress, enabling the Group to realize synergies in operational efficiencies, with respect to product R&D, procurement as well as sales and marketing, to enhance its competitiveness in the TV industry worldwide.

Nevertheless, the financial performance of the Group's operations in Europe was below expectation as the synergies and cost savings generated since the establishment of TTE were eroded due to tough market conditions. The Group recorded a loss in 2005.

TV Business

The TV business is the Group's major source of revenue, accounting for 87% of the Group's total turnover. For the year ended 31 December 2005, a total of 23 million sets of TVs were sold worldwide, representing a growth of 38% over the same period last year and generating sales revenue of HK$29,938 million, a growth of 37% as compared to the previous year. The growth in shipment and revenue was mainly contributed by sales from European and North American markets, sales of which were not consolidated into the Group's financial statement on a full year basis in 2004 during which it was operated by the Thomson Group until August 2004.

The Group offers a diverse range of TVs under a number of reputable brand names that are present in all the major markets. Some of these major brands included the TCL brand for the PRC market, Thomson brand for the European market and RCA brand for the North American markets.

TV Unit Sales	2005 ('000)	2004 ('000)	Change
PRC	**9,236**	8,877	4%
Europe and North America	**6,129**	3,091	98%
Emerging Markets and Strategic OEM	**7,639**	4,751	61%
Total	**23,004**	16,719	38%

Our products could be broadly classified into general CRT TVs and high-end TVs (which comprised of flat panel TVs and projection TVs). General CRT TVs accounted for approximately 70% of the Group's total turnover, against 81% in 2004, while high-end TVs accounted for 30%, as compared to 19% in 2004.

The Group sees immense growth potentials in flat panel TVs and has been placing more emphasis on product design and development, supply chain management as well as sales and marketing of flat panel TVs. Products are available in a full array of different sizes. The Flat Panel TV Division, a new business unit, was established in the second half of 2005 with the aim of exploring the full potential of this fast-growing market.

The PRC Market

China continued to be the Group's largest market in terms of unit sales and revenue. A total of 9.24 million sets of TVs were sold in the PRC in 2005, up from 8.88 million sets in the previous year. This was comprised of 7.82 million sets of TCL-branded TVs and 1.42 million sets of Rowa-branded TVs. Sales revenue from the PRC TV market reached HK$11,026 million, representing an increase of 5.3% as compared to 2004 and accounting for 37% of the turnover from the TV business. This division contributed an operating profit of HK$452 million in the year under review.

Competition in the high-end TVs was relatively more intense than that in the general CRT segment. The Group witnessed a visible change in consumer appetite, shifting from general CRT TVs to flat panel TVs, and further from small flat panel TVs to large display ones.

In capturing the emerging opportunities, the Group enriched and upgraded its product offering with the introduction of new products adopting DDHD chipsets and large display LCD TV models up to 42 inches. The enriched product portfolio enhanced the product mix and gave a boost to the average product selling prices by over 1%. As such, sales of high-end TVs accounted for a higher percentage in the region's product mix, increasing from 12% in 2004 to 19% in 2005.

A total of 116 new models were launched during year 2005, of which 50 were high-end models. However, as flat panel TVs commanded a lower gross margin as compared to general CRT TVs, the change in product mix led to a marginal decrease in the gross margin of the PRC market.

The Group continued to enjoy a dominant share of 21% in the domestic TV market, which is slightly higher than the 20% share in 2004. In the fast growing LCD TV segment, the Group has also established a leading position. It took up a 10% market share and was ranked amongst the top five players during 2005. (Source for market share: Ministry of Information Industry, January to November 2005, and Company data)

The development and promotion of new LCD TV series resulted in increased R&D and marketing expenses, which exerted a temporary impact on the operating margin. As the Group further strengthens its position in the LCD TV market segment, the related expenses are expected to go down.

European and North American Markets

The Group has greatly enhanced its profile in the European and North American markets through the acquisition of the ex-Thomson TV business. In 2005, being TTE's first full year operation, the Group sold a total of 6.13 million sets of TVs in these two markets, and in aggregate, generating a sales revenue of HK$14,480 million and accounting for 48% of the total TV turnover. As fierce market competition drove down product prices and eroded the synergies arising from enhanced efficiencies and higher economies of scale, the Group recorded operational losses of HK$779 million in these two markets during the year under review.

European Market

Operating environment in the European market was tough in 2005. While the fast growing flat panel TV market was characterized by a continual price reduction, the CRT TV posted a contraction in demand. TV manufacturers were challenged with their ability to stay in the market under a thinning margin.

During the year under review, the Group made a number of strategic strides. Some of these included the repositioning of the R&D centre in Europe and the rationalization of global manufacturing platform. Despite these initiatives, there was a disruption in product introduction plan resulting from the timing mismatch between the R&D centres and the late delivery of certain components for production. These negative factors had

significant impact on the financial performance of this division. Cost savings and synergies realized in the year were hardly visible. The overall performance in European market was below management's expectation.

A total of 18 new product models were launched during the year under review, of which 16 were high-end models. In line with market development, the Group continued to make improvement in product mix. Sales value of high-end TVs accounted for 49% of the sales in the second half of the year, up from 44% in the first half of the year.

The Thomson brand remained to be a key brand in the European market with a 5% market share. (Source: GfK, Feb 2005 to Jan 2006).

North American Market

The migration from analogue to digital TVs and the emergence of the trend towards flat panel TVs were two major trends in the TV industry in North America in 2005.

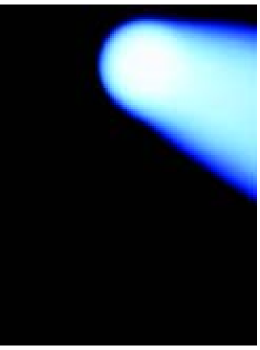
During the year under review, the Group adopted an "affordable TV" strategy that aimed at offering a compelling combination of good picture quality and styling at affordable price. In line with this strategy, the Group commenced a cost reduction programme to ensure efficient use of manpower and resources. In addition, the termination of the sales agency agreement with Thomson also contributed to cost saving.

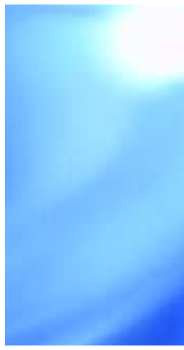
To optimize resources deployment, the Group focused on strengthening relationship with key customers through various initiatives, such as shortening the order-to-delivery cycle and providing stronger customer support. These customers are mainly national and regional chain operators which offer higher turnover rate and truckload quantities. The overall performance in the North American market met the management's expectation. A total of 44 new product models were launched, of which 29 were high-end models. Sales value of high-end TVs accounted for 47% of the sales in the second half of the year, down from 49% in the first half of the year .

The RCA brand was ranked Number 4, with a market share of 9% (Source: Synovate Jan-Nov 2005).

Emerging Markets and Strategic OEM Business

The Emerging Markets and Strategic OEM business continued to post strong volume growth. Still in an expansion mode, the two markets in aggregate sold 7.64 million units of TVs in 2005,





representing a robust growth of 61%. Sales revenue grew by 42% to HK$4,432 million and accounted for 15% of the total TV sales in 2005. These two divisions contributed an operating profit of HK$91 million.

For the Emerging Market division, the operating environment was getting tougher than before as a rising number of international players started to enter these markets.

The Group added 7 new overseas branch offices during the year under review, bringing the total number to 18. Branded business experienced remarkable growth in year 2005. The Group is pleased to see that TCL brand has gained increasing market acceptance in these fast developing markets. However, the establishment of new overseas offices incurred additional operating expenses and the promotional activities in new markets also burdened the overall operations to a certain extent. Profit margin was therefore under short-term pressure.

For Strategic OEM division, the Group benefited from the increasing outsourcing trend globally. On top of the existing customers, the Group also proactively developed new accounts and started to work with acclaimed international customers to enrich their product offering with theme decorated TVs. Geographically, the Group is exploring business opportunities in the ASEAN countries, Africa and Latin America.

PC Business

While the sales revenue from the TV business increased considerably, the importance of the PC business in the Group's total turnover decreased visibly. The PC business accounted for 6% of the Group's total turnover in the year under review. For the year ended 31 December 2005, the Group sold a total of 700,000 sets of PCs, an increase of 13% as compared to the previous year. Sales revenue amounted to HK$2,093 million, representing an increase of 6% as compared to 2004. The division contributed an operating profit of HK$23 million to the Group for the year under review.

The Group re-engineered the sales and distribution network to a leaner structure that facilitated faster response to market needs and deployed resources for the development of notebook PCs which demonstrated strong market potential. Unit shipment of desktop and notebook PCs accounted for 95% and 5% of the total sales respectively. The growth was mainly attributable to increased home PCs sales on increased promotional resources to uplift the image of TCL products.

The increased sales of high-end products such as PCs with LCD monitors widened the gross margin of this business. However, owing to the overdue receivables related to the education projects, a bad debt provision of approximately HK$43 million was made, lowering the operating margin of this division in 2005.

COMPANY OUTLOOK

The dynamic and highly competitive global TV industry will continue to emerge with new opportunities and challenges. The flat panel TV segment has swiftly emerged as the growth engine of the industry globally. Its unique operating model of requiring constant technological innovation, global manufacturing facilities, low costs structure, strong supply chain management and efficient inventory management capabilities puts the Group in a perfect position to stay ahead of its peers in this highly battled market segment. In parallel with its determination to gain its share in the flat panel TVs segment, the Group will continue to maintain its competitive advantage in the CRT segment to achieve sustainable growth.

The Group is committed to offering high quality products with innovative features and designs. It will continue to invest in the design and development to meet market needs. Its plan is to launch more than 250 new models in aggregate in 2006. Over 40% of them fall into the high-end area.

The Group aspires to be the world leader in the TV industry. It is dedicated to managing its worldwide operations more efficiently, responding quicker to ever-changing market needs, applying innovative ideas in product R&D, and ultimately, bringing us back on track to be a global TV player with competitive advantages.

The Group will continue to improve the overall business performance, in particular in the European and North American markets. Strong emphasis will be placed on improving profitability in the two markets. In Europe, comprehensive project plans will be put in place. Review and reforms will be conducted on all levels from customer, product development to human resources. The ultimate goal of all these projects is to turn around the business within the shortest period of time and to turn the European division into a profitable one by 2007. In North America, the strategies developed in 2005 will be continued and more visible results are expected to come in 2006.

FINANCIAL REVIEW

The Group's consolidated turnover for the year ended 31 December 2005 reached HK$34,556 million, an increase of 35% as compared to 2004, driven by strong TV sales across key markets. Gross profit also increased by 29% to HK5,633 million. However, due to keen competition, product price reduction was seen across markets. The Group's overall gross margin was down from 17.1% in 2004 to 16.3% this year. The Group recorded operating losses in the European and North American markets. Although synergies were generated from higher economies of scale, improved cost structure and enhanced operating efficiencies, the positive results derived from these initiatives were not sufficient to cover the losses incurred in the European and North American markets. Aggravated by a number of non-operating factors as mentioned below, the Group reported a net loss attributable to equity holders of the parent of HK$599 million for the year ended 31 December 2005.

Costs of the Group were driven up significantly by non-operating factors including (i) higher finance costs due to higher debt level, (ii) impairment of shares in TCL Communication Technology Holdings Limited, (iii) fair value loss of Thomson's Call Option held by the Company, and (iv) expenses charged for the grant of employee share options under new accounting standard. The combined effect of these factors for the year amounted to HK$287 million.

Significant Investments and Acquisitions

For its long-term benefit, the Group implemented a series of strategic moves to gain full control of sales and marketing activities, broaden its revenue base, and further grow its intellectual property portfolio. Major acquisitions or movements during the year are listed out as follows:

(1) On 4 July 2005, the Group entered into an acquisition agreement with TCL Corporation, the ultimate controlling shareholder of the Company, for the acquisition of 49% equity interest in TCL Electrical Appliance Sales Co., Ltd ("Sales Company") which controls and operates a distribution and after-sales services network in the PRC. Upon completion of the acquisition, the Group will own the entire equity interest of the Sales Company. Further details of the acquisition are set out in the Company's announcement dated 5 July 2005.

(2) On 12 July 2005, the Group and Thomson Group entered into the North America Transfer Agreement and European Master Transfer Agreement for the transfer of the sales and marketing activities in North America and Europe respectively from Thomson to TTE. In connection therewith, among other things, TTE and Thomson are required to execute a number of related agreements to modify the former operational arrangement of the Angers factory in France, and to revise certain sales and marketing and service arrangements between the two groups. Closing of all transactions contemplated under the North America Transfer Agreement and the European Master Transfer Agreement took place on 1 February 2006. The agreements enable TTE to directly manage its sales and marketing activities, and provide the basis for improving the Company's ability to serve customers and coordinate product planning, pricing marketing and business strategy. For further details, please refer to the Company's announcements dated 12 July 2005 and dated 2 September 2005 and the Company's circular dated 2 August 2005.

(3) On 26 July 2005, the Company acquired from Opta Systems, LLC, a company controlled by TCL Corporation, certain intellectual property rights including trademarks, service marks, patents applications and copyrights. Further details of the transaction are set out in the Company's announcement dated 29 July 2005.

(4) On 10 August 2005, pursuant to the Exchange Option Agreement dated 30 July 2004, Thomson exercised the exchange option to exchange its 33% interest in TTE for shares of the Company. TTE became a wholly-owned subsidiary after the share exchange. For further details, please refer to the Company's announcement dated 10 August 2005.

Liquidity and Financial Resources

The Group's principal financial instruments comprise bank loans, factoring, cash and short-term deposits. The main objective for the use of these financial instruments is to maintain a continuity of funding and flexibility at the lowest cost possible.

The cash and bank balances as at the year end amounted to HK$1,952 million, of which 3% was maintained in Hong Kong dollars, 33% in US Dollars, 48% in Renminbi, 4% in Euro and 12% held in other currencies for the overseas operations.

There was no material change in available credit facilities when compared with the year ended 31 December 2004 and there was no asset held under finance lease at the year end.

At the year end, the Group's gearing ratio was 70% which is calculated based on the Group's net borrowings of approximately HK$2,783 (calculated as total interest-bearing borrowings less cash and bank balances) and the equity attributable to equity holders of the parent of HK$3,991 million. The Group's net borrowings included advances from banks and a factoring company as consideration for factored receivables and discounted bills amounting to HK$1,131 million in aggregate, which were recognized as liabilities on the balance sheet upon adoption of Hong Kong Accounting Standard 39. Were the net borrowings calculated under old accounting standards, the amount would have been HK$1,652 million and the Group's gearing ratio would then be 41%.

For the year under review, the Company breached certain financial covenants of bank loans with an aggregate carrying amount of HK$1,538 million, under which the lenders were entitled to demand the Company for immediate payment of all the outstanding amount. Subsequent to the balance sheet date of 31 December 2005, the Company obtained from the lenders waivers of the said breaches under the relevant loan agreements on 31 March 2006 . Paragraph 65 of HKAS 1 requires that all the outstanding amount under the bank loans should be treated as a current liability of the Company, even if the lenders have agreed, after the balance sheet date and before the authorization of the financial statements for issue, not to demand payment as a consequence of the breach. As a result of the re-classification of the liability, the balance sheet for the year under review may show a relatively high level of current liabilities as well as short-term borrowings. However, since the Company has obtained waivers in respect of the said breaches and the lenders have effectively waived their rights to demand payment, and the Group has retained considerable cash and bank balances, the directors of the Company consider that the Group still maintains a healthy liquidity position.

Pledge of Assets

At 31 December 2005, certain of the Group's buildings with a net book value of HK$90 million and certain time deposits of HK$90 milllion were pledged to secure general banking facilities granted to the Group.

Capital Commitments and Contingent Liabilities

At 31 December 2005, the Group had capital commitments contracted, but not provided for of approximately HK$9 million. Guarantees given in lieu of utility and rental deposits amounted to approximately HK$4 million.

Foreign Exchange Exposure

Due to its international presence and operations, the Group is facing foreign exchange exposure including transaction exposure and translation exposure.

It is the Group's policy to centralize foreign currency management to monitor the company's total foreign currency exposure, to net off affiliate positions and to consolidate hedging transactions with banks. The Group emphasizes the importance of trading, investing and borrowing in functional currency to achieve natural hedging.

Employee and Remuneration Policy

The Group had a total of 28,296 dynamic and talented employees. They were all dedicated to advancing the quality and reliability of our operations. Remuneration policy was reviewed regularly, making reference to current legislation, market condition and both the individual and company performance. In order to align the interests of staff with those of shareholders, share options were granted to employees under the Company's share option schemes. During the year, options for subscribing a total of 152,920,000 shares were granted to directors and employees at an exercise price of HK$1.40. Including those granted previously, options for subscribing a total of 183,342,861 shares remained outstanding at the year end. Total staff costs for the year under review were approximately HK$2,000 million, of which HK$29 million were employee share option expenses recognized upon adoption of Hong Kong Financial Reporting Standard 2.

PC
BUSINESS

RE-ENGINEERING THE SALES AND DISTRIBUTION NETWORK TO A LEANER STRUCTURE, FACILITATING FASTER RESPONSE TO MARKET NEEDS.

700,000 UNITS
OF PC SOLD
IN YEAR 2005